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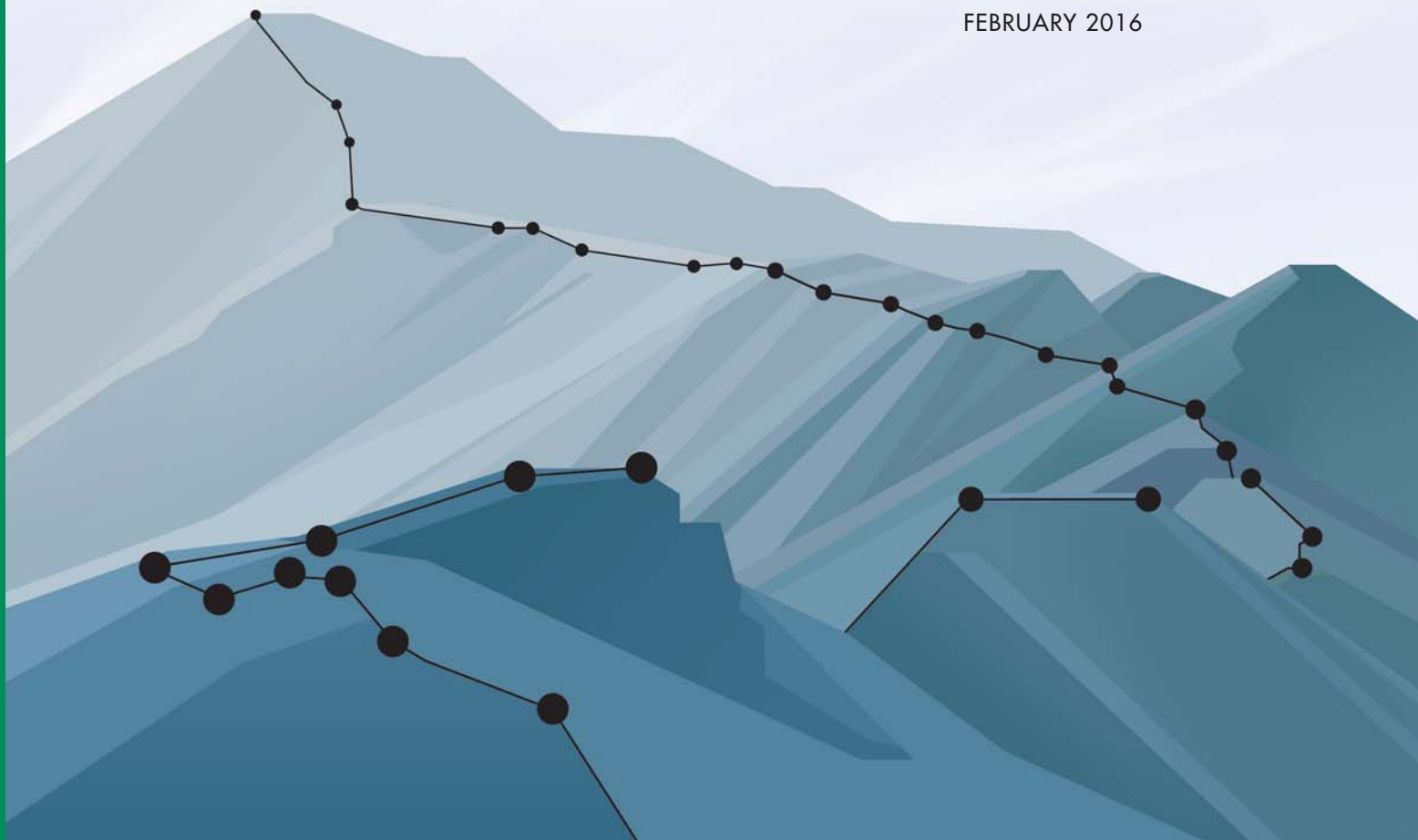
# FORM AND FUNCTION

A VIEW OF THE FINANCIAL AND OPERATIONAL  
PRACTICES OF SOUTH AFRICAN PRIVATE  
PHILANTHROPIC FOUNDATIONS

RESEARCH REPORT

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**'FORM AND FUNCTION' - A VIEW OF THE FINANCIAL  
AND OPERATIONAL PRACTICES OF SOUTH AFRICAN  
PRIVATE PHILANTHROPIC FOUNDATIONS**

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**“This report, *Form and Function*, reflects the research undertaken during the course of 2015 to assist existing foundations as well as emerging entities to benchmark their practice.”**

GASTROWBLOCH PHILANTHROPIES

## // EXECUTIVE SUMMARY

**This report “Form and Function” reflects the research undertaken into the governance, financial management and grantmaking practice of twenty one South African philanthropic foundations during the course of 2015. This report was to assist existing foundations as well as emerging entities to benchmark their practice.**

Based on an extensive questionnaire, interviews were done with 21 foundations through their representatives including foundation staff as well as the founders where appropriate. The report produced some interesting and unexpected results some of which are outlined below:

• Funded operational costs	100%
• Prepared to create leverage to attract other funds	90%
• Interested in collaboration	90%
• Funded innovation	80%
• Funded start-up organisations	77%
• Provided for general purposes/undesigned funding	66%
• Had permanently invested capital base	66%
• Had endowment exceeding R1 billion	66%
• Funded litigation	30%

Other findings of the report can be summarised as follows:

- Collective 2015 grantmaking spend of the 21 participating foundations: R763,8 million
- On average, endowed foundations paid out between 4-5% of their capital each year
- Annual grantmaking spend ranged from R300 000 to R125 million.
- Key focus areas of funding included education, health, social justice, welfare, entrepreneurship, the arts and environment.

# // GOVERNANCE, ENDOWMENT MANAGEMENT AND GRANTMAKING PRACTICE

## BACKGROUND

Very little information is available on private/independent foundations and their philanthropic practices in South Africa. In particular there is little information about how local foundations function in terms of their endowment management, including how funds are invested or their assets managed; their grantmaking models and their operational management practices, as well as their approaches to governance.

The lack of information has made it difficult for existing foundations to evaluate their practice and to ascertain what general current practice is, what best practice norms might be, what new innovations are being explored, developed or tested and what the boundaries and benchmarks are. Likewise, the lack of information makes it nearly impossible for new foundations or those individuals intending to establish them to set benchmarks or boundaries for practice.

## RESEARCHING PRIVATE PHILANTHROPIC FOUNDATIONS IN SOUTH AFRICA

Currently there is no source of information in South Africa on the size and scope of the institutionalised philanthropic sector, that is the number of private philanthropic foundations/trusts, the size of their endowments, the size of their annual spend or where that spend is made and how. The sector is well known for its privacy and its desire to remain under the radar. This is understandable in a country that has such extreme needs in all areas such as poverty reduction, health, education at all levels, environmental support and social justice. Public knowledge of the many private foundations that do exist would result in an avalanche of requests that low-cost structures could not cope with.

In comparison, philanthropy in the USA, for example, has become a “social institution that takes on meaning in a culture of individualism and private initiative and in the absence of a comprehensive welfare state, especially in health provision.” It also “operates in an environment which is resistant to the idea that the state has a very prominent role to play in the provision of welfare and higher education services, cultural facilities and community assets.”<sup>i</sup>

There are a number of research projects into institutionalised philanthropy currently being undertaken by various entities and it is clear that there are on-going difficulties relating to gaining hard data, whether directly from the foundations themselves or

through the SA Revenue Services or the Non-Profit Organisations Directorate. As a result GastrowBloch Philanthropies decided to interview representatives of a small number of South African foundations (total 21), but with a sample large enough to represent general trends.

There are many research projects undertaken in the United Kingdom and the United States of America which could provide some information on general foundation practice, but because of the different context and legislation, much of this is not transferrable to the South African philanthropic sector. However, the global leaders in philanthropy tend to be the US Foundations and their practice affects the philanthropy discourse across the world.

## KEY OBJECTIVES OF THE RESEARCH

The key objectives of this research were to gain an understanding of the following within the South African philanthropic foundation community:

- Foundation structures
- History of the foundations
- Governance models
- Governance policies relating to:
  - Risk
  - Ethics
- Endowments and asset management
- Annual grantmaking budget determinations
- Grantmaking practice including:
  - Strategy
  - Grant applications
  - Specific tools for grantmaking
  - Proposals and formats
  - Review processes
  - Decision-making processes
  - Contracts
  - Reporting requirements
  - Monitoring and evaluation
  - Exit strategies
  - Types of funding
  - Donor recognition
- Operational management including:
  - Resource requirements
  - Use of independent expertise
  - Marketing

## **SYNTHESIS**

This report is a synthesis of the research that was undertaken by GastrowBloch Philanthropies in 2015. The objective was to provide existing foundations and individuals who wished to establish foundations information relating to common practice amongst South African foundations in relation to governance, endowments, financial management and grantmaking.

The research team found that the input by interviewees was especially transparent and has provided a good snapshot on institutionalised philanthropy for this first report in South Africa on private foundation practice.

## **METHODOLOGY**

The researchers interviewed representatives of twenty-one private foundations using a detailed questionnaire. The interviews generally lasted about two hours and all participants were transparent in their engagement with the interviewers, including the size of their endowments and their annual grantmaking spends. The questionnaires provided for a mix of qualitative and quantitative information which is reflected in this research document.

## // BACKGROUND, HISTORY AND GOVERNANCE

### AGE OF FOUNDATIONS

The interviewed Foundations were established as follows:

DATES	NUMBER
Before 1945	2
1945-1959	1
1960-1969	1
1970-1979	0
1980-1989	0
1990-1999	4
2000-2009	5
2010-2015	3

Although this research only represents 21 foundations, it is interesting to note that the twenty years, 1970-1989, showed no growth in the foundation sector. Taking into account the rise of resistance against apartheid during that period, the disinvestment campaign, the wars in Angola and Namibia and the political instability, it is known that many wealthy South Africans sent their money abroad, whilst other emigrated. The lack of confidence in the South African economy and body politic may have contributed to the lack of institutionalised philanthropy. After 1990, we see a rise in new foundations in response to the new democracy and increased confidence. What is clear is that philanthropy is a growing global movement and South Africans are not immune to the global context.

It would be interesting to predict how philanthropy responds to the current lack of business confidence in South Africa – whether there is resistance to the setting up of foundations or whether individuals will be prepared to establish philanthropic entities and take the risk of engaging with civil society and institutions such as universities in order to secure the country's future.

### REGISTRATION JURISDICTION

• Gauteng	7
• Western Cape	13
• KwaZulu-Natal	1

The size and scope of local philanthropy is unknown and the small size of this research project may have skewed where the bulk of local foundations are registered. In one case the foundation is planning on dual registration, in South Africa and the USA.



## OPERATIONAL JURISDICTION

• National	13
• Western Cape only	4
• KwaZulu-Natal only	1
• South Africa and International	3

Most of the foundations operated across South Africa with a few that focussed on a specific province or geographical area. This latter practice is usually tied to the wishes of the founders who generally made their fortunes in a particular province and wanted to give back there. It is however interesting that although there were seven foundations registered in Gauteng, there was not one amongst the foundations interviewed that focussed its grantmaking solely in Gauteng. International grant funding was made in other African countries, the USA, South America, Israel and Palestine.

## FORM OF REGISTRATION

• Trusts	15
• Off shore trusts	2
• Non-profit Companies	2
• Non-profit Organisations registration	9
• Public Benefit Organisation registration	17
• 18A	6

The vast majority of foundations are established as trusts rather than non-profit companies. This may be due to the more onerous additional governance and accountability required by the establishment of a non-profit company. It is also noted that Public Benefit Organisation (PBO) status with the SA Revenue Services is a key registration element, whilst registration as a non-profit organisation was not seen as a priority. In fact one foundation de-registered from the list.

## CATEGORY OF FOUNDATION

• Family	12
• Individual	3
• Posthumous	2
• Independent	4

The research revealed that the bulk of foundations interviewed were started by individuals or families, but over time the control moved to independent trustees. Two were established through a bequest and one was established by a company that disinvested, established a trust with the remains of its assets, and which today is an independent grantmaking entity with an independent board that has no company representatives on it.

## THE HISTORY OF THE FOUNDATIONS

As mentioned above, most of the foundations were established by individuals or families. In general, the families had a history of being philanthropic and the foundations were established in the following ways:

- During their lifetimes
- Part of estate planning

Six of the foundations in this research were established by individuals or couples who had no children. The trusts were established on their deaths and generally the trustees were (and in some cases still are) personal friends of the founder including their accountants, fund managers, tax consultants, lawyers etc. In a few cases the trusts were established with some of their wealth when they died and when their spouses passed away later, the balance of the wealth was added to the foundation's endowment. Whilst the trustees are not family members, they generally take great care to follow the wishes of the founders and their mandates remain aligned with the founders' wishes.

Two of the family foundations were established in previous decades and still have the involvement of the descendants of the founders. A theme of honouring a family patriarch/matriarch or commemorating his/her life also runs through some of the thinking when establishing a foundation. The issues of sustaining family values and family legacy runs deep and while not all descendants of the family choose to be involved, many still play a role in the foundation's grantmaking activities and serve on their boards. One family in particular has established a fund for their grandchildren's involvement.

Ten of the foundations have living donors who are active in the affairs of the entity. Whilst they do not necessarily run the foundations themselves and have staff or consultants involved, foundation strategy is done in consultation with them and frequently they serve on boards that make grants. Family philanthropy of this nature can be divisive or it can bring families together. In cases where siblings have a broad range of interests, great care has been taken to find common ground and a common theme and strategy for giving. In one case the founder is extremely active in the foundation's activities and is involved in operational issues as well. It should be pointed out that these foundations often do not reflect the full scope of the founders' giving as in many cases their charitable or welfare donations are ad hoc and come from their personal resources. This also reflects in cases where founders of foundations simultaneously give from their private family businesses. Seven of the foundations with living donors do not have an endowment. The founders invest funds every year based on an approved budget. There are concerns about how these foundations will be sustained in the event of the death of the founder and some have made arrangements for endowment after their death.

There is also a concern as to how this affects the beneficiaries of the foundation given there is no security in the ongoing relationship in the event the founders do not leave a legacy endowment.

One independent foundation was established as a result of a US company disinvesting, but leaving their operations behind which were managed by a trust. Eventually the trustees sold the assets and, with the income, they established an independent endowment which was to be used for education.

## FOUNDING RATIONALE

The founding rationale behind most of the foundations was the desire to leave a legacy. Each founder had an individual passion, but some trust deeds were very broad whilst others were specific. Specific rationale included:

- South Africa was not sustainable with the current levels of inequality and unemployment, therefore philanthropic investment in education and entrepreneurial opportunities could contribute towards change.
- Religious values and assisting the stranger.
- Enriching local communities through a focus on health, education and leadership.
- Social justice was something that all family members had in common
- Family values, a legacy for the children and the need to play a role in society. The purpose of life was not only the immediate needs of the family.
- Making a difference in the world through education.
- Explicit support for technology for social impact organisations.
- Love of environment and support for wildlife.
- Helping South Africans to reach their full potential.
- Passion for education and the poor.
- Make South Africa a successful country.
- As they had no children, the main focus was on education and charitable welfare.
- Honouring where they came from and it was time to come together as a family to continue the philanthropic tradition of the family.
- The founder recognised that he had benefitted from excellent education and therefore had choices and opportunities. He wanted to create opportunities for children to have an excellent maths and science education so that they could have future choices and opportunities to change their futures.

## FORMAL GOVERNANCE CHARTERS

Yes	5
No	16

75% of the foundations did not have a formal governance charter, but most of them believed that the founding document or trust deed was adequate in covering all the elements required for good governance. Some felt that the trust document served as a guide rather than being prescriptive about how they operated, and that it contained the minimum required such as the size of the trustee quorum, frequency of meetings and other “house-keeping”. One foundation used the Independent Code of Governance for Non-Profit Organisations in South Africa, a code developed by South African non-profit organisations in 2012.

Some foundations had specific governance policies including their values, their vision and mission and how they operated. One foundation was working on evolving a governance charter beyond the current decision-making team.

## FORMAL ETHICS POLICY

75% of boards had no formal ethics policy, but relied on their founding documents to guide them. This did open the way to various potential abuses as board members were not formally required to declare conflicts of interest. Examples that emerged included the referral of endowment funding to financial services companies where the trustee concerned received a financial benefit from the company and the individual asset manager, depending on the size of the capital referred.

Independent trustees are usually appointed to boards based on their skills in certain sectors, for example law, accounting or financial management. Generally, both globally and locally, these professional trustees tend to serve on multiple boards and specifically in South Africa the pool appears to be limited resulting in the same trustees serving on several boards. This inevitably leaves room for resultant conflicts of interest and cross loyalties.

According to a publication by The Charity Commission [the independent regulator of charities in England and Wales] “Trustees’ personal and professional connections can bring benefits to the work of a charity and they often form part of the reason why an individual has been asked to join the trustee body. However, they can give rise to conflicts of interest, to which the trustees must respond effectively.”<sup>ii</sup>

In these situations conflicts can also arise when foundations for example need to employ external professional services such as those offered by trustees’ companies, negotiate product procurement from trustees or family members of trustees or suddenly increase board remuneration for professional trustees.

Conflicts of interest are problematic for three reasons. Firstly, they create potential legal liability. Secondly they can result in negative public perceptions and lastly they could compromise decision making. In the US for example there are “self-

dealing prohibitions under the federal tax laws. In those situations, board members and foundation managers can be personally liable because they engaged in the transactions, approved them, or both. Some transactions that involve conflicts of interest are **absolutely prohibited by law**. Those transactions are described in the tax code and are known as the self-dealing prohibitions. Others do not involve activities that are prohibited by the self-dealing rules, but they are conflicts nevertheless and therefore require careful consideration in a process designed to show the fairness and integrity of the decision.”<sup>iii</sup>

“For foundations, the bottom line is this: conflicts of interest should either be avoided or managed in such a way that the foundation and its board and managers are protected from liability or unwelcome publicity.”<sup>iv</sup>

Although the US and UK are far ahead both in terms of legislation and practice with regards to conflicts of interest, the research discussions show that South African Foundations are turning their attention, albeit slowly, towards developing formal ethics policies which include defining conflicts of interest and the management thereof.

Serious questions around potential conflicts of interests were raised by several participants. The development of conflicts of interest policies, a code of ethics, and employment contracts for professional paid trustees were identified as key recommendations.

## NUMBER OF BOARD MEMBERS/TRUSTEES

The size of the board varied quite considerably and it did not relate to the amount of funding in the endowment, but rather the requirements of the founding document. The average number of board members was six, with lowest being two and the highest thirteen.

## REMUNERATION OF BOARD MEMBERS:

• Yes	8
• No	10
• Unsure	3

- Expenses reimbursed in terms of travel to board meetings and or accommodation by some.

About half of the foundations had paid board members, whilst others enabled members to claim expenses such as travel or for preparation and board time. Occasionally grants were made in lieu of their time. In one case the bank provided paid trustees and they were “paid to make decisions in line with the

founder's wishes". Some paid trustees on an annual basis, whilst others paid per board meeting attended. Whilst the questionnaire did not ask what the average payments were for board members, it was clear that these were professional fees and were pegged accordingly. The payment of board members and the extent of that payment seems to have become problematic over the last decade and in some foundations CEOs found this a challenge to resolve.

Board remuneration can also be a source of conflict where guidelines are not set out in a formal policy and this is especially the case where the founders are no longer alive.

## **SELECTION OF BOARD MEMBERS**

There were few foundations with clear policies relating to the selection of board members. The selection was done variously as follows:

- All trustees are family appointed.
- Family, the CEO and a lawyer.
- All trustees are people who knew the founder well.
- Closed process, vacancies are filled by invitation and trustees are mindful to balance the skills of board members. They seek leaders in their fields.
- Nomination done by the CEO and the Board. The final decision is made by the board.
- Family together with a lawyer and an accountant.
- No specific process.
- The founding document specifies certain academic positions such as Vice Chancellors.
- New board members are recruited by suggestion of existing board members and through private conversations.
- We explore at the board what skills are missing and use referrals from other Board members.
- They have to be family with some family trustees.
- Nominated by trustees and require a majority vote.
- Founder is chair of the board and there is a system and a way for identifying board members.
- Criteria include:
  - Identifying the needs of the board such as managing money and people from the sectors served by the foundation.
  - If there is a skills gap, get a general feel of the candidates and approach via the CEO, the Chair or trustees.
  - If interested, there is a process. Sometimes they join first as a consultant to see if there is a mutual fit.

- Informal. We ask a potential board members to engage with us first and we get to know them and to work with them. If they fit the ethos of the organisation, then they are invited to join. We have a policy for trustees.
- We are a new foundation and include founder trustees and donors.

One of the issues that emerged when associates of the founder served on the board was the question of aging and succession. Some of the foundations in particular had many elderly board members and it was suggested that they might need to explore the idea of a governance charter to cope with the transition.

Another issue facing family foundations in particular is what happens when the next generation does not want to be involved or there is no capacity for involvement. In the case of many family foundations the relationships between the foundation and the grantees almost always lie with the founder and then the family down the line. Where there is no proper succession planning these relationships might be jeopardised as new professional independent trustees join the boards who lack the knowledge or understanding of the relationships.

## **DIVERSITY AND THE BOARD**

Six of the foundations were not concerned about issues of diversity as the foundations were private entities linked to private families. However, as the foundations aged, and non-family members began to take control, trustees have become aware of the need to explore the matter of diversity. This was not only about racial diversity, but also around gender (it was identified as a male dominated sector originally), skills, location and perspectives or points of view.

According to the Diversity in Philanthropy Bibliography of Resources published by the Foundation Centre in 2008<sup>v</sup>, diversity within the philanthropy sector has been of growing concern globally in recent times. This resource speaks not just to diversity in terms of board members, but diversity in general in terms of both the internal governance and operations of foundations as well as in terms of the beneficiaries and the communities they serve.

In the South Africa context in particular, diversity amongst foundation staff or the operational team has been deeply considered and seems to have been a significant advantage despite the potential for conflict. On the other hand, governance structures whilst giving consideration to the matter of diversity have not yet developed formal policies in this regard or practised this in an informal way. Whilst there is a vast resource of publications about philanthropic board diversity internationally, there is no real resource or community of practice within the South African context against which foundations can benchmark their practice.

## PERIOD OF SERVICE OF BOARD MEMBERS

As the foundations were mainly trusts, 16 of them had no term limitations, although two had retirement ages of 72 to 75.

One provided for two to three year terms; two provided for three year terms and one to five years. One foundation reappointed their board on an annual basis.

One foundation that had no maximum term of office included a rotational chair for members of the family. It was recognised that sometimes there was a big time commitment required and therefore trustees tended to be retired people.

The time constraints and commitment required aside, there are many arguments for and against limiting terms of trustees and most especially board chairs.

We have previously mentioned the issue of relationships and the potential loss related to bringing in professional independent trustees not linked to founding families or the individual founders. The same issue could apply to limiting the terms of office that founders or founding trustees can serve. This does not seem to be a problem amongst the family foundations in this research project, but is certainly a consideration amongst the boards of legacy or posthumous foundations and independent foundation participants.

In the case of professionalised independent foundations such as prevail in the USA, it seems common practice to limit the terms of trustees and chairpersons of boards.

## FREQUENCY OF BOARD MEETINGS

The frequency of board meetings varied from once a year (2) to six times a year (1). However, the majority of foundation boards met four times a year (11). In addition, the director often had meetings with the Chair of the board between official board meetings and there were various sub-committee meetings that took up board members' time. It was noted that sometimes board members attended meetings through skype or another virtual arrangement.

In larger foundations with significant endowments and several asset managers, the finance sub-committees met more regularly than in smaller foundations.

## PERCENTAGE OF BOARD MEMBERS INDEPENDENT OF FOUNDING INDIVIDUAL OR FAMILY

50% of the foundations were fully independent of the founding family or individual founder and had no founders or family members serving on the boards.



100%:	10
80%:	1
65 %:	1
30%:	2
50%:	3
Nine out of thirteen board members:	1
Four out of seventeen board members:	1
0%:	1

### GRANTEE REPRESENTATION ON BOARD

No:	18
Yes:	3

The issue of grantee representation on the board related to conflicts of interest as it was difficult for board members to not be swayed by a grantee who served on the board. Whilst only three foundations indicated that grantees sat on the boards, they indicated that the particular board member left the meeting when their organisation came up for discussion. It is not clear if this is really adequate as a sense of trust and camaraderie can exist amongst board members and it would be highly unusual for a grant not to be made.

### BOARD MEMBERS SERVING ON GRANTEE BOARDS

Yes:	12
No:	9

The number of foundations that had board members serving on grantee boards amounted to more than half. This too opened up issues relating to a conflict of interest. The rationale behind this practice was that the donor would then have an idea of what was happening within grantee organisations. However, this practice cannot avoid the potential conflicts between the role as a grantmaker and the role as a board member with fiduciary responsibility to the organisation the individual serves.

There is potential for significant conflicts of interest and role confusion on these boards. It is also unclear if the grantee board positions came before or after those organisations received funding. Often beneficiary organisations offer donors positions on their boards as an honour or recognition. In other cases the position is offered in the hope of swaying continued support by way of funding, time or expertise.

## CEO OR EXECUTIVE DIRECTOR IN PLACE

80% of the foundations interviewed had an employed Chief Executive Officer or Director, some of whom were family members. 20% were run by a family member, 5% were run by a bank representative and 5% by an accountant.

What was clear was that family foundations faced significant challenges in terms of operations and governance as a result of the diversity of family members and interests. This challenge also played a significant role in grantmaking decisions. According to an article published by McKinsey & Company in 2010 “Families must cope with the critical challenge of nurturing a consensus on the direction of their philanthropic activities from one generation to the next. Some family foundations have tackled the issue by creating a discretionary spending budget allowing family members to finance projects that interest them. Others give them opportunities to serve on the board or staff of the foundation or to participate directly in philanthropic projects through onsite visits and volunteering schemes. This approach is an especially powerful way to engage the next generation early on.”<sup>vi</sup>

The decision on leadership both at board level and on an operational level was often a source of conflict in these foundations and required careful strategic planning to ensure the family’s philanthropic activities were a source of cohesion rather than disintegration.

## LINK BETWEEN EXECUTIVE AND GOVERNING BODY?

When unpacking the links between the executive and the governing body, most of the responses indicated a simple line between the CEO and the board, with the CEO reporting to the board. On occasions, the CEO was also a board member with full voting rights or ex-officio. In one case the Chair of the Board was the CEO, with another employee heading the operations. However, in most cases the Chair was the key point of reference. In one foundation the CEO had major decision making and implementation power but met with the founder every six months.

## WHO MAKES EXECUTIVE DECISIONS?

Whilst the CEOs had the power to make operational decisions, many reported that key strategic decisions were done jointly with the board.

It was clear from the research that the role of the CEO in private philanthropic foundations needed to be more clearly defined and that the lack of clarity was a challenge to effective leadership. This was especially the case where the CEOs had both executive and operational responsibilities.

This dilemma is not unique to the South African context. In the US and the UK, tools have been developed to assess the competencies of leadership candidates with the aim of applying the findings to a very clear and specific job description. In some cases the CEO may make executive decisions in his/her area of competency while other decisions are made by other senior management staff with the required competency. This in turn relates to the matter of responsibility versus accountability. In the case of many international foundations the final accountability rests with the CEO. In the case of the participants in this research; the final accountability always lay with the board.

### **HOW CLOSELY IS THE FOUNDING MANDATE/WISHES OR VALUES OF THE FOUNDER ADHERED TO?**

All the foundations indicated that they were mindful of the wishes of the founder and did not get confused about whose money had established the entity. They indicated that they remained close to the original mandate, but grantmaking practice would have changed in line with current good practice.

In the case of living donors, the CEOs tended to meet or engage regularly with them to ensure alignment. In three cases particularly, despite the founders no longer being alive and there being no family heirs to take on a role at the foundation, the trustees and CEOs stuck steadfastly to the wishes of the founders and frequently still funded the same beneficiaries along with new ones that fitted the mandate. It was clear that in these cases the personal commitment to the founders guided the decision making.

There was however some frustration amongst CEOs of foundations responsible for upholding founding mandates where the mandates could no longer be applied. The only remedy in this situation was to approach the court to make an amendment.

### **WHO TAKES RESPONSIBILITY FOR ENFORCING THE MANDATE?**

The overwhelming majority of those interviewed indicated that the Board was responsible for enforcing the mandate of the founders. Occasionally the living founders played this role.

## // ENDOWMENTS AND ASSET MANAGEMENT

### IS THERE AN ENDOWMENT OR PERMANENTLY INVESTED CAPITAL BASE?

Yes	14
No	7
Annual donor contribution:	9

Two thirds of those interviewed indicated that the foundations were endowed with some form of permanently invested capital base, and in some cases they continued to add to the amount on special occasions. However, seven foundations did not have endowed funds and the living donors made annual contributions, spending the funds during the year and then replenishing what was required.

Annual contributions were generally based on budgeted programme requirements. This meant that the individuals concerned have preferred to keep their finances under their private control rather than endowing a foundation with a separate board. One foundation in particular helped to establish a non-profit organisation and a large percentage of its funding is used for that purpose.

Of concern is the potential for instability in tough economic times and also the long term survival of these foundations as, in time, the next generation will need to decide whether to continue the philanthropic tradition of the family or not. It was clear that the constrictive tax legislation in South Africa was a significant deterrent for individuals thinking about establishing foundations with endowments in perpetuity.

In the USA and the UK, tax legislation actively encourages the establishment of foundations and the personal tax benefits to individuals doing so make for a very enabling environment. The tax law specifically relating to institutionalised philanthropy in South Africa has been included in a broader review by the Davis Tax Committee, established to “assess South Africa’s tax policy framework and its role in supporting the objectives of inclusion, growth, employment, development and fiscal sustainability.”<sup>vii</sup> The Independent Philanthropy Association South Africa (IPASA) convened several meetings with The National Treasury and the South African Revenue Service (SARS) to drive change in this regard. IPASA was invited to make a formal submission to SARS in 2014 and this submission now forms part of the Davis Tax Committee review.

### IS THE ENDOWMENT IN PERPETUITY OR SPEND DOWN?

Perpetuity:	13
Spend Down:	1
No decision:	1

Of the fifteen organisations interviewed that had endowments, only one was clearly defined as a “spend down” with a 25-30 year horizon. One other foundation has discussed this matter, but no decision was taken. Generally, the mandate of the boards of the endowed foundations was to “protect, preserve and grow the assets of the trust.”

The notion of “spend down” endowments often presented a problem in that it was difficult to spend down on a significant capital endowment as a result of normal capital growth in the investments. In such cases a very elaborate investment strategy was required in advance and continually updated to ensure the capital was not preserved, but spent into allowing for the timeframes set by the founders.

In one case in particular of a foundation that did not have an endowment, the founder believed that he would prefer to spend his philanthropic resources during his lifetime.

The most notable global example of a spend down or limited life foundation would be The Atlantic Philanthropies established in 1982 by American entrepreneur Charles Feeney. This decision and the philosophy inspired the Giving Pledge created by Warren Buffett and Bill and Melinda Gates.

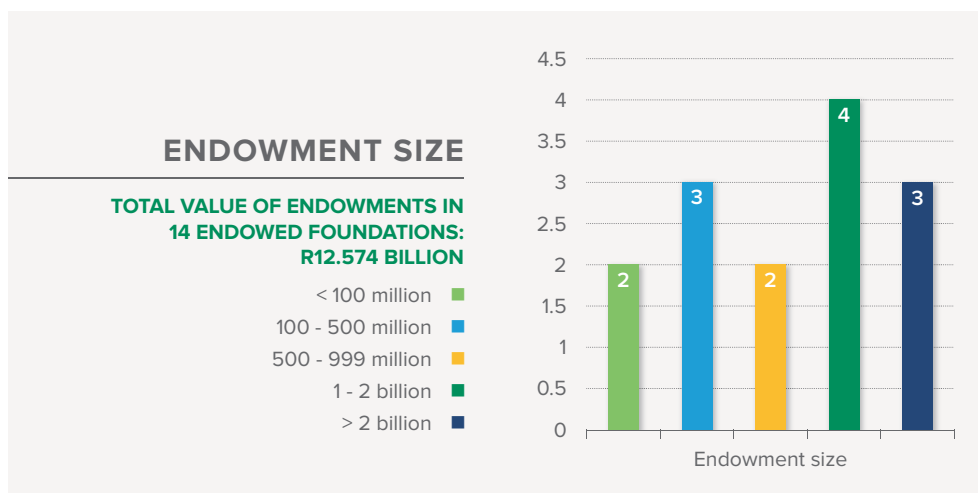
**SIZE OF INITIAL PRINCIPAL SUM INVESTED IN THE ENDOWMENT?**

The amounts of the initial principal sum invested varied considerably and the current size of endowments reflected whether they were well managed or whether considerable sums were removed from the capital amount. **Some examples of the growth of endowments are as follows:**

YEAR OF ESTABLISHMENT	INITIAL SUM	2015
1944	R350 000 000	R3 100 000 000
1969	R1 000 000	R387 000 000
1994	R29 000 000	R350 000 000
1995	R400 000 000	R1 000 000 000
2001	R90 000 000	R1 000 000 000

**CURRENT SIZE OF THE ENDOWMENT**

Some of the foundations interviewed had endowments beyond R3 billion, whilst others were considerably smaller. **The breakdown of endowed foundations is reflected in the following graph:**



For many South Africans, the combined size of these endowments is somewhat of a surprise as the general view is that local foundations are small and do not make a major contribution. As we only interviewed 21 entities, this is a small reflection of what is really happening in the country in relation to philanthropic giving.

## ENDOWMENT MANAGEMENT

Philanthropic endowments in South Africa are mainly managed by asset management companies with clear mandates from their boards. The range of asset managers is very wide and 60% of the foundations have broken up their investments which are managed by different financial managers. In one case the foundation has portfolio management agreements with twelve asset managers, both local and international.

The larger endowments are generally overseen by a finance sub-committee of the board who meet with asset managers regularly. The majority of the foundations indicated that such meetings or reporting took place on a monthly basis. Most of the mandates given to asset managers are discretionary with a balanced risk profile. Two of the foundations had a conservative risk profile and one had a high risk mandate to one of its asset managers. Four of the foundations had a non-discretionary mandate.

The funds are generally invested in the following asset classes:

- Shares, both local and global
- Cash
- Listed Property
- Hedge Funds
- Global credit/bonds

For foundations that required high levels of liquidity, investment was made into short term assets such as preference shares with good dividends and the money market.

## **DOES THE FOUNDATION HAVE A MISSION ALIGNED INVESTMENT STRATEGY?**

The issue of mission aligned investing has come under the spotlight in recent years and this has come under discussion amongst a few of the foundations. One in particular is finalising a responsible investment strategy that explores alignment in terms of shareholder activism. In that case they would not disinvest, but would take on a particular company through a proxy or a consortium of shareholders to change its business practices. However, the majority have not taken any action to align their investments with their social objectives and take the view that while they screen out some specific categories of assets, in the South African context it would be difficult to disinvest as some of the top income generating shares would be screened out. It was felt that to undertake an effective mission aligned investment strategy, proper research would be required along with an investment model to do this.

At the same time, the foundations have variously screened out certain asset categories such as:

- Tobacco
- Arms
- Gambling
- Alcohol

Mission aligned investment is a hotly contested topic internationally and certainly philanthropic foundations in the USA take this matter seriously and are far more proactive in their approach to this, even publishing their investment policies and strategies. An industry has developed to service philanthropy and in this regard tools, products and metrics are constantly being developed or amended. Many of these are developed in the financial sector.

“Mission aligned investment is far more complex than it seems and even with the best intentions and emerging tools, the current investment framework makes it difficult to match investment portfolios to values.”<sup>viii</sup>

What is clear is that foundations’ endowments are seen as having as yet unleashed potential in terms of meeting their founders’ mandates. In South Africa, The Bertha Centre for Social Innovation is working with social finance experts from across the world, governments, business and investors to “incubate and test promising social financing vehicles across Africa.”<sup>ix</sup> Their work includes developing and testing social impact bonds and an academic course on impact investing for both wealth holders and wealth managers.

## WHAT IS THE GROWTH STRATEGY FOR THE ENDOWMENT?

The majority of endowed foundations were created with a lump sum injection of capital at the time of founding. A few had extra injections of funds on the death of the surviving spouse or when descendants wished to mark a specific commemoration of the founder. The basic strategy for growth focussed on good investment practice and reinvestment of the income, such as interest and dividends. None of the foundations interviewed raised funds from other donors to increase their holdings. The actual financial management strategy varied, with some endowments focussing on conservative, long term growth; others providing specific targets to their financial managers (in a number of cases outperformance of six per cent per annum over strategic asset allocation returns relative to inflation. (This had been achieved in the last decade.)) Foundations were very mindful not to exceed the amount drawn down for grantmaking and operations.

In the case of the spend-down foundation, income is spent along with some capital. Here concern was expressed that the South African stock market could “right-size” and that would rapidly reduce their capital.

It was noted that Section 18A of the Income Tax Act affected the potential growth of endowments as 75% of income had to be spent within two years, thereby inhibiting long term investment. As establishing endowments had no tax benefit for the donors, it was clear that this legislation inhibited long-term sustainable strategic philanthropy.

Growth strategies were determined and driven by the founders or boards and guided by finance sub committees where they existed or asset managers where they did not. It appeared that these strategies were influenced not just by the markets or economic influencers, but by the tools and products available. For example, with the introduction of impact investment, impact bonds and mission aligned investment, growth strategies in some foundations are under review.

## DISBURSEMENT

There is no current legislation in South Africa that compels an endowed foundation to disburse a specific percentage of its funds. As the capital is sourced from the founder’s post-tax income, there is no reason to dictate how the funds should be spent. This differs in the case of Section 18A of the Income Tax Act as a tax benefit has been provided to the giver and therefore legislation directs that a fixed percentage of the donation be disbursed within a fixed period. Investment policies within the foundations changed over time, depending on disbursement policies and the economic climate. The foundations interviewed had varied disbursement policies and for some the annual budget was driven by strategy and the programmes supported, rather than a set percentage of capital. In such cases programme dictated

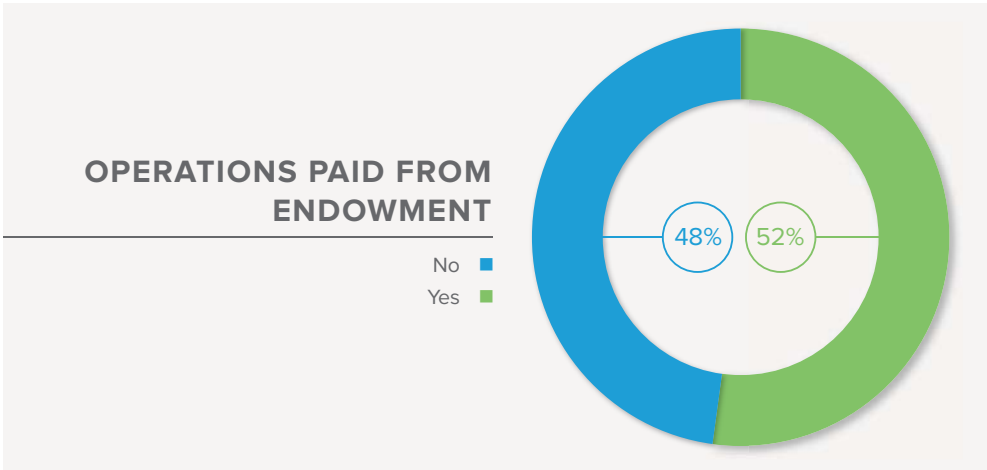


the disbursement. The larger foundations did have a Statement of Investment Principles which served as the mandate that provided guidelines on distributions. However, the majority of foundations estimated their annual spend on a percentage of capital, usually between four to five percent. This disbursement strategy had moved in line with international practice.

It was also noted that funding was rarely committed beyond two or three years and that the foundations took into account liquidity and forward commitments and managed these carefully.

**ARE OPERATIONS FUNDED FROM THE ENDOWMENT?**

Yes	11
No	10



The cost of operations varied amongst the foundations and for just over half, the annual budget was divided into operational costs and grants, generally in the region of 15% and 85% respectively.

Some foundations kept their operational costs to a minimum and in some cases had no operational costs at all as the founder’s company managed the accounts and board members were volunteers. Salaries formed the largest percentage of operational costs. In this regard, foundations that had family member CEOs tended to pay a non-market related stipend salary and cover travel expenses and in some cases paid no salary at all. In the case of large legacy foundations run by independent staff with no family participation, operational costs were significant, but always in line with policy in terms of percentage of funds allocated.

Where foundations were programmatic, operational expenses were obviously much higher as the foundations were not making grants, but rather expending funds on their own programmes.

## // GRANTMAKING

**The research explored various aspects of South African foundation grant-making practice and levels of accountability. Only four of the foundations operated anonymously, whilst the balance were in the public realm through, for example, websites, but generally functioned quietly.**

The majority of foundations (12) had developed a strategic framework for their grantmaking, but they were not necessarily bound by hard and fast strategy policies. Key comments included:

- We have opportunities to be aberrational.
- The grants have to be aligned to the focus areas and must address real problems and be the new answer or a unique contribution. There must be possibilities to scale up and we have to be confident in the people involved. The projects need to be sustainable and not too dependent on us.
- We don't deviate from the trust deed. We discuss strategy all the time and make decisions at disbursement meetings.

### DECISIONS RELATING TO FOCUS AREAS OF INTEREST AND ACTIVITY

As expected, each foundation was unique in its areas of interest and how those focus areas were selected. **The research revealed, inter alia, the following:**

- The founder had supported thirty five organisations during his lifetime and after his death the trustees continued to do so, keeping his own interests in mind. Key areas included education, arts and culture.
- Foundations were guided by their founding documents and decisions were made based on strategy relating to current needs and the changing environment.
- In the case of family foundations that had multiple family members serving on the board, discussion took place on an annual basis.
- As the next generation took over the foundation, so a new vision and mission was created and new vigour was added to the founding document.
- Strategy making was in some cases consultative and the foundation engaged with grantees and external experts to inform their decision making. The strategy was then approved by the board.
- Small foundations managed solely by a family member tended to be responsive and sometimes opportunistic rather than strategic.
- Some foundations had a long term mission that was revised annually with the board. Whilst the type of programme delivery might have changed, the strategy often remained the same over time.
- South African foundations had been affected by international trends and therefore strategies had shifted away from funding applications to a more activist approach, engaging with the appropriate sector defined in the founding document, but

viewing the foundation as a catalyst rather than simply a grantmaker. The issue of leverage had also become part of philanthropic practice.

100% of family foundations interviewed sighted the founder's passion and personal experience as a driver behind the focus area of the foundation. Where trust deeds allowed for broader focus areas, next generation participants were able to extend the giving. Within family foundations there was a very strong legacy component and next generation family members declared a strong desire to honour the legacy.

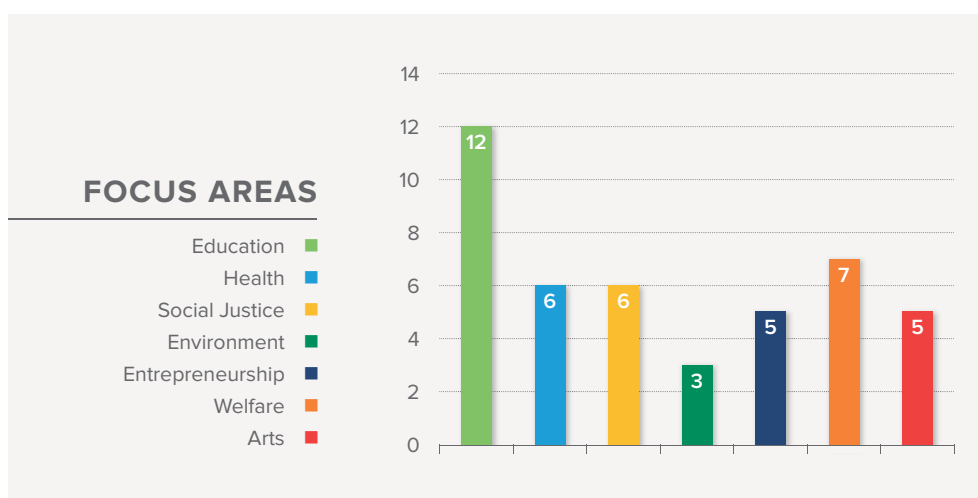
## AREAS OF FOCUS

The areas of focus were mostly defined by the founding document. Where that document was vague, then focus areas were chosen by the board. In this research sample all foundation mandates remained applicable to the current South African context. However we are aware that there are existing foundation mandates where the founders and family no longer play a role [these are mostly operated by independent trustees within financial services organisations] and where the mandates are no longer relevant to the South African context (and in some cases contravene legislation). In these cases trustees have been known to apply to court for permission to amend the mandate.

Many of the foundations interviewed had more than one focus area. For example a foundation with a focus on higher education also funded tertiary healthcare education. The sample interviewed indicated a very wide spectrum of focus areas as follows:

- **Education**
  - Higher Education
    - Research
    - Undergraduate and post-graduate education including bursaries
    - Support for academic programmes
  - Teacher Training and Development
  - Schooling
- **Quality basic education in low income communities**
  - Early Childhood Development
  - Numeracy and literacy in the early years outside the school structure
- **Animal Welfare**
- **Welfare:** inclusive enabling communities: focus on marginalised, vulnerable members of society and specific religious groups.
- **Arts and Culture**
  - The role of arts in society and social cohesion
- **Childcare**

- **Health services**
- **Entrepreneurship**
  - Technology support to scale impact in the developing world.
  - Post school opportunities, access to information on opportunities
- **Social development**
- **Leadership**
  - Women
  - Youth leadership for the public good
- **Social justice**
  - Promoting the constitution including access to a quality and independent legal system
  - Inclusive economic growth: policy and promoting entrepreneurship
  - Clean and effective government
- **Environmental sustainability and nature conservation**
- **Research**
- **General**
  - Celebrating South Africa
  - Social cohesion – national braai day
  - Olympic sports people
  - Safety



Education	12	Entrepreneurship	5
Health	6	Welfare	7
Social Justice	6	Arts	5
Environment	3		

## HOW IS GRANTMAKING STRUCTURED?

The foundations were asked if their grantmaking practice included the following:

- Once off charitable grants
- Repeat funding
- Maximum number of years of repeat funding
- Types of grants
  - Ad hoc
  - Capital projects
  - Soft loans
  - Operational costs
  - Salaries
  - Undesignated funds/general purpose funds.

### Salaries and Overheads

Contrary to general opinion in the non-profit sector, all the foundations funded operational costs and salaries and two thirds of them provided for undesignated or general purpose funding. Whilst some foundations focussed on programmatic funding, they were generous with overheads within those programmes or were specific that the operational costs had to be programme related. In one case the foundation indicated that they covered “one hundred per cent of billings” but were now at breaking point.

There was a definite trend not to be constrained by too many rules.

### Once-off charitable grants or repeat funding

100% of foundations interviewed provided for repeat funding but with different approaches as follows:

- On-going annuals that the founder funded.
- We have a national flagship project with multi-year funding.
- We start with three year grants and we prefer this as the administration is reduced. We also make emergency grants.
- We continue to fund the same organisations but we check the organisation, its management, if it is run effectively and its reporting.
- We normally provide one year's support as a start (in the region of R500 000 to R1 million). If we are happy after the first year and they have met their legal agreements and fulfilled all obligations and we are happy with the outcome, we can go for more than one year. If we think it is an organisation that needs more security, then we do multi-year grants (three years). We have in some

organisations a second cycle of three years, but it is always our intention not to support indefinitely.

- Some are once-off, but most in the middle. Repeat funding up to three years. We help to incubate projects but do not run our own operational projects.
- Mixture of long term [some will be in perpetuity], once-off charitable, mid-term and capital projects.
- We fund individuals/change agents, not projects or organisations. We fund the implementation of ideas and there is no limit on implementation – it can be projects the individual is running, overheads or travel.
- We fund what the foundation decides in collaboration with its primary project – the school. If meals are required or tablets needed, then they are funded.

13 of the 21 foundations made once-off charitable grants despite some of them having a strategic framework for giving and the once-off charitable grants not fitting into that framework. These once-off grants were often related to the passions of the founders or in response to an immediate need within an organisation already supported as part of the strategic framework.

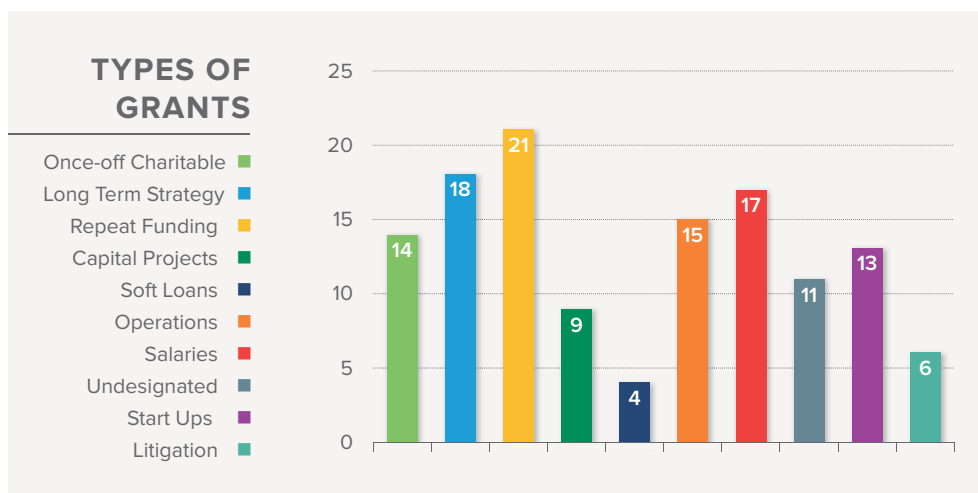
### **Capital Projects and Soft Loans**

There were not many foundations committed to capital projects or soft loans – in most cases they firmly indicated “we don’t do loans, rarely capital grants”. This has an impact on civil society organisations seeking support to build facilities or to add to their endowments. On the other hand, one foundation in particular indicated that grantees “can ask for anything” but it had to be meaningful. Another foundation only focussed on capital projects relating to schooling.

Two foundations were prepared to consider loans. However, it was pointed out that loans were more complicated than grants and the foundation had a problem if the loan was not paid back. One foundation had taken the position that if the organisation succeeded in securing a matching amount to the loan, then the loan would become a grant whilst the second indicated that they would do a grant and an interest free loan.

### **Entrepreneurship**

One particular foundation focussed on technology and entrepreneurship and had a co-investment component. Grantees (individuals) had to invest an amount of their own and their grant amount was contracted at the beginning of the year, for a year at a time. In addition, they were given access to project funding and could pitch for that throughout the year. Funding was provided up to three years, but there was no automatic renewal each year. Amounts were determined by a salary equivalent.



Once-off Charitable	14	Operations	15
Long Term Strategy	18	Salaries	17
Repeat Funding	21	Undesignated	11
Capital Projects	9	Start Ups	13
Soft Loans	4	Litigation	6

### Determination of the foundation's annual grantmaking budget

The foundations were asked how they based their projections for their annual grantmaking budgets. These included a percentage of capital; grants based on income only; projected capital base at the current rate of inflation, bringing strategy and projection together; long term cycles and commitments; occasionally spending more than usual; programmatic or strategy based.

Key themes emerged from the research as follows:

- The majority estimated grantmaking and operational spend at between 4-5% of the full capital sum in the endowment, including income.
- Operational spend was generally in the region of 13%-15% of the annual disbursement budget.
- Historically some had budgeted on the previous year and added 5% to the coming year, but this had shifted to programmatic requirements.
- Some foundations relied on what the programmes required as their base for grantmaking budgets.
- Non-endowed foundations relied on the founder for annual income and generally the founder would advise the foundation what would be available for the year. Projections were often not made and plans took place only a few months ahead. One founder indicated that "We don't stick to the budget anyway." One foundation that focussed on two defined capital projects had no limit.

- One foundation indicated that it was cautious about projections and if they had underestimated, they did give away more.

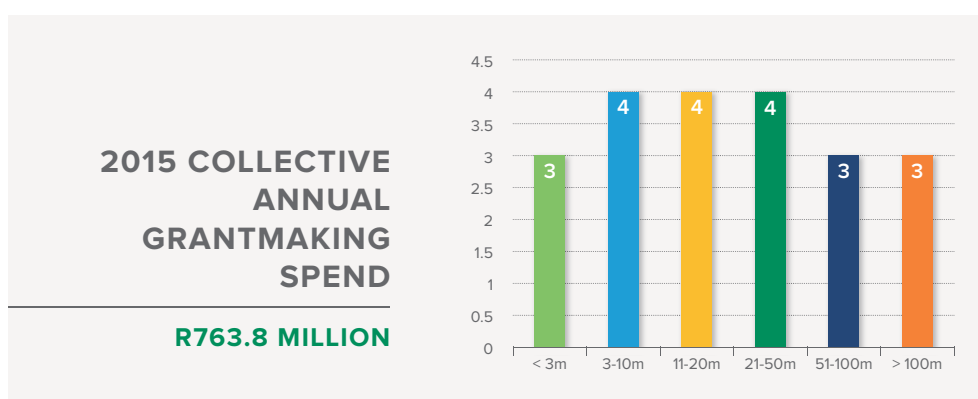
## SIZE OF THE ANNUAL GRANTMAKING SPEND 2015

The size of the annual grantmaking spend of all foundations interviewed in 2015 varied from between R300 000 to R125 million and was broken down as follows:

GRANTMAKING AMOUNT	NUMBER OF FOUNDATIONS
< R3 million	3
R3 million – R10 million	4
R11 million – R20 million	4
R21 million – R50 million	4
R51 million – R100 million	3
> R100 million	3

Estimated annual grantmaking spend by unendowed foundations was R193,5 million as follows:

	AMOUNT
A	R5 million – R6 million
B	R20 million – R30 million
C	R6 million – R12 million
D	R7 million – R8 million
E	R1 million
F	R10 million
G	R90 million
H	R45 million



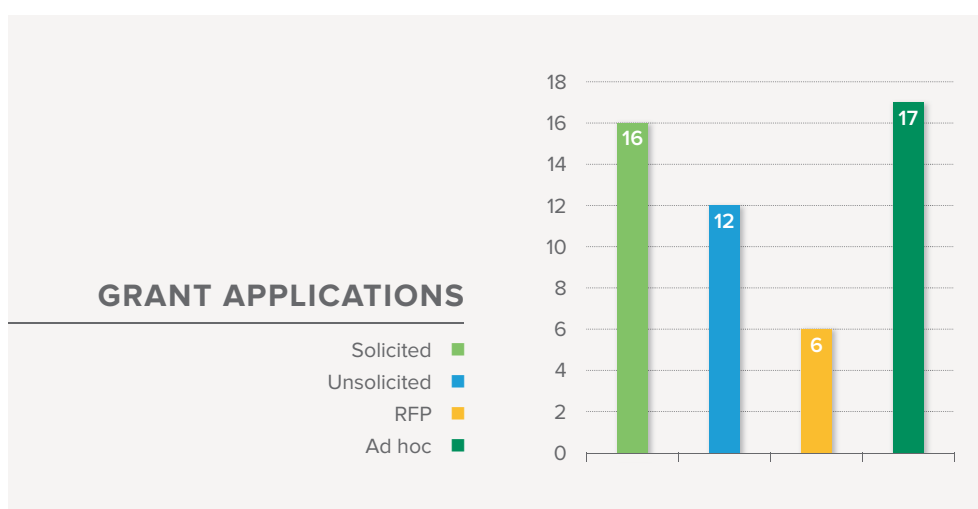


## Grant applications

The foundations were asked whether they had any mechanisms to facilitate grant applications or were asked how they obtained proposals. The majority of foundations undertook research to identify potential grantees that were aligned with their objectives and therefore not many focussed on unsolicited proposals.

Key comments from the responses were as follows:

- We don't encourage proposals. Networks are important.
- We have sought out certain people and organisations who we think do interesting work that is aligned with our strategy.
- We don't invite proposals, so it is mostly trustees providing ideas. The CEO might take the initiative and we look out for projects ourselves. Trustees are mostly the origin of new ideas. Approaches to us are less successful.
- If we get referred to people, we meet, ask for documents. We will go into a process of evaluation and work with them on the model. We want to be involved and give guidance and input.
- We co-create and co-design along with our grantees.
- Things in the post don't usually fit with our parameters.
- People trace us and phone. They submit a proposal. People knock on the door and there is a network of fundraisers who know us. We don't like fundraisers.
- I have the Chair's discretionary fund and don't have to wait and can respond immediately.
- Funding is reactive, not proactive.
- We have longstanding relationships with the universities and actively seek engagement with them. There is no formal application in that case. We also accept unsolicited proposals.
- We seek candidates through our website.



## FROM WHOM DOES THE FOUNDATION ACCEPT APPLICATIONS?

It was clear that the foundations preferred to identify their potential partners, but the parameters were quite broad. However, there were specific administrative requirements such as Public Benefit Organisation (PBO) status and tax exemption. Interestingly, registration as a non-profit organisation with the Department of Social Development was not necessarily an important element.

Comments included the following:

- Organisations identified by the trust and we are happy to receive applications. This would be open to any NGO fitting into the strategic document.
- We don't want fundraisers, but prefer to do site visits. We fund tax exempt organisations and would like to see their financial statements.
- All non-profits and community based programmes are welcome.
- Organisations registered as NPOs, but we also work with service providers in education which are registered as companies and we work with individuals (usually academic researchers).
- Requirements relate to the status of applicants relating to registration and compliance such as NPO and PBO registration.
- There has to be strategy.
- If things come through the door that are too small, we refer them to the Multi-Grant Initiative Agency which makes grants to Community Based organisations working in health or social justice.
- Anyone can apply. From a tax perspective it is favourable to support PBOs with 18A tax exemption.
- Must have 18A Tax Exemption.
- We are broad in our interpretation of NPOs. This includes people in universities, but must fit with Schedule 9 of the Income Tax Act.
- Anyone as well as the universities. They don't have to be registered NPOs. We haven't funded for-profits, but we might.
- Only registered NGOs, no individuals other than bursary fund which is in a separate entity.
- Any individual who has reached the age of majority. It can be for or not for profit.

Specific organisations or entities that would not be funded variously included the following:

- No start ups
- No religious organisations unless it is a welfare mechanism of a faith based organisation
- No religious entities such as churches or mosques
- No profit-orientated businesses

- No political organisations
- No individuals, except bursaries and scholarships.

## ARE THERE TOOLS THE FOUNDATION USES IN THE APPLICATION PROCESS?

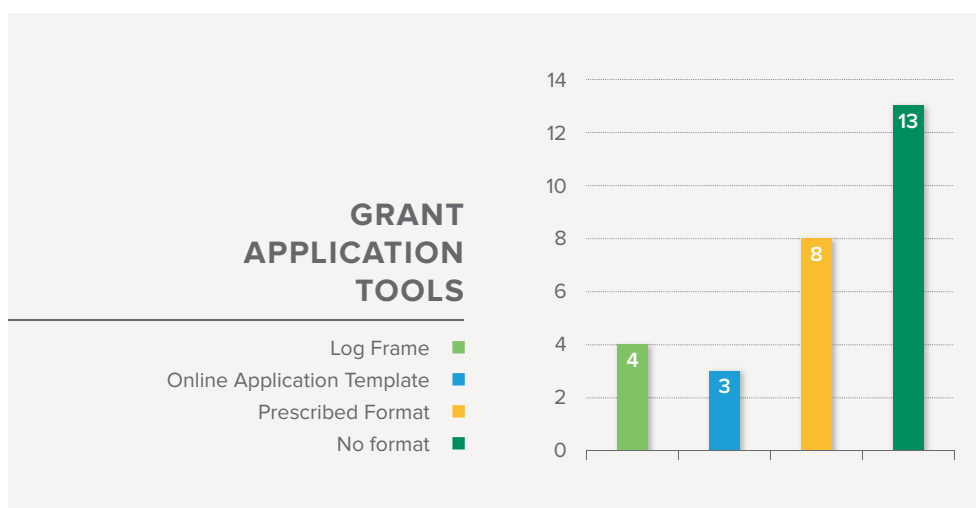
Foundations were asked if they used specific tools as part of the application or grantmaking process. These included log frames, theories of change, on-line applications, prescribed proposal formats or proposal guidelines. Responses varied greatly from quite formalised on-line application processes, through to very informal simple applications. **Key responses included the following:**

- We don't have on-line applications.
- We would like to have a form on the new website to save people time.
- We don't have a format, but maybe we should.
- If we decide an organisation can apply, we send out an application template. They can use it, but it is not compulsory.
- We have stayed away from on-line applications. We have different basic requirements for formal applications. We have a simple check list for first-time organisations and a simple one page set of guidelines for individuals looking for scholarships. We keep it as simple as possible.
- We have proposal formats depending on the research project or the intervention. These are broad guidelines rather than rigid templates.
- We have an application form for individuals including their past educational history, financial history and matriculation.
- We use a theory of change.
- Theories of change.
- We have a check list for assessing proposals:
  - Is the concept aligned with our objectives? How much would work, how many years would it take?
  - Then we go through the theory of change during the process of proposal development.
- Twice a year we have website applications where potential candidates are asked four questions around their view on changing the world. There is a factual component and a five minute video of their idea.
- There are broad guidelines for the ideas we are looking for:
  - A level of innovation
  - Something that adds value
  - Something that solves a problem in a way that hasn't been tried before
  - The idea should have an open licence for others to use and replicate
  - It should be a social change idea.
- Business plan with deliverables.

- We have an on-line application that has a design similar to a log frame. We have a two step application process:
  - First step is on-line with questions that we want to know:
    - What problem are you trying to address?
    - Who will be employed?
    - Time line?
    - Activities?
  - We have another format for larger initiatives.

Three foundations played a very active role with potential grantees. They did not accept unsolicited proposals and two used a theory of change to assist in designing the projects they funded. By the time the proposal had been submitted to the foundation boards, there had been plenty of pre-engagement and joint proposal development. One of the foundations was willing to fund planning grants and round table discussions. At the same time, relationships between the foundation staff and the grantees had strengthened and there was a clear understanding of shared objectives.

It was clear from the research that South African foundations do not in general apply sophisticated or complex tools in the grant application process to the same degree as US or UK counterparts.



Log Frame	4
Online Application Template	3
Prescribed Format	8
No format	13

## WHAT INFORMATION IS REQUIRED FROM THE APPLICANT?

Besides the proposals which form the basis of the contract between the foundation and the grantee, other documentation was required as part of the due diligence process. These overwhelmingly included:

- Latest audited financial statements
- Copies of NPO and PBO certificates
- Founding documents

Other aspects relating to due diligence included questions relating to the following:

- Who is the responsible party who will be the interface with the foundation?
- Does the organisation have the capacity to deliver?
- Who is on the team and who does the work?
- Are people qualified or being mentored into doing the work?
- Financial standing of the overall organisation and how the organisation will be run in the next five years, both financially and its staff.
- Are we the only funder and what are the risks of being the only funder?
- We require a list of other donors.
- Governance, list of board members and who sits on the board, what set of skills is available. The issues of relatedness and the independence of the board members are important.
- With regards to universities, questions relating to what they are doing to grow younger staff members through coaching and mentoring, and to what extent the university is involved in community engagement.
- Organisations that are reasonably well resourced are not penalised. We also look at the extent to which organisations that we support are moving to achieve sustainability, diversify their donor base, with no reliance on the lotteries. We will seldom go out on a limb as the single largest funder. Don't want dependency, we encourage individuals and organisations to explore other avenues of support.

## WHAT IS THE REVIEW PROCESS?

Foundations were asked to give detail about the review process and on what basis grants were made. They provided a great deal of information on the review process and there were clear trends within this sample of the philanthropy sector. Critically, they explored alignment; checked the organisation itself including its governance, management, staff and sustainability; undertook site visits; explored impact of the work and a number of foundations were actively involved with the organisation, helping to build the proposal or co-designing the programme to be

funded. Some used external experts to assist with the review. In particular, site visits were a major aspect of review.

An example of the review process from one foundation is detailed as follows:

- We receive a concept paper, sometimes people present to us and we go to them.
- Site visits to meet the people concerned and to briefly assess the organisation.
- This is followed up by regular phone calls and even further meetings to refine the proposal.
- We ask for annual financial statements and references from other donors.
- Once the contract is signed, in the life of their project we do a financial audit. We would like to do it beforehand – it is time consuming.
- Financial audit: programme officer does this and sees how the files are kept, spot checks on the bookkeeping etc.
- We undertake six-monthly monitoring visits.
- We undertake a financial systems review.
- We consult with other donors: cross-donor communications. We do this particularly with new grantees.

Many of the foundations had strong relationships with their grantees and were involved in co-creating or co-designing the work. They therefore knew the organisations very well. If the foundation was active and operating on the ground with its potential partners, it was their view that they did not need to do a lot of formal due diligence. One foundation had considerable historical links to their grantees and these continued to receive funding with very little administration other than occasional site visits. One foundation described their review process as “20% on paper, 40% meeting and gut; 40% sustainability.” However, when a new grantee was considered, due diligence checks did take place including possible discussions with the trustees. When dealing with individuals seeking bursary or entrepreneurial support, meetings and discussions took place to clarify all issues relating to the grant.

Most foundations had some level of formality with trustees making the final decision relating to the award of a grant to an organisation. The applications were often fine-tuned by the programme officer or Director, together with the grantee, to ensure that any issues that might be raised by the board had been covered and the chances of referring matters back to the organisation were reduced.

Internally, some foundations had portfolio teams that met to discuss summaries of projects they might wish to recommend. Based on the outcomes of these meetings, a decision was made to move onto the next step or to decline the application.

## WHAT IS THE DECISION MAKING PROCESS?

The foundations were asked about the grantmaking decisions – whether there was any form of review board or structure and how often the decision-making body met.

Most of the foundations indicated that the board made the final decision after a review by staff. In one case the Director engaged in an interactive process with the founder and the decision-making was joint. In some cases the staff prepared summarised recommendations, sometimes with a spreadsheet, whilst in other cases the documents were very detailed and the foundation's staff presented on behalf of the potential grantees.

Some foundation CEOs had discretionary funds or could deal with ad hoc grants below a certain level (for example R100 000). At one major foundation, there were three tiers of decision-making:

- Up to R100 000: approved by CEO at weekly meeting
- R100 000 – R500 000: approved by the Chair of the Board and the Chair of the Distribution Sub-committee on a monthly basis
- Above R500 000: full board approval.

It was noted that a good application made the decision-making easier, but some trustees accepted that some proposals were not well written as people had not received adequate education. This was backed up by a site visit.

In some cases, trustees would ask detailed questions about the project, how would it improve the lives of the beneficiaries; was it an asset based community development project; was there a long term strategy for the project; who else was involved and what was the total cost against the requested amount? Risk and strategy were considered important to the decision-making process.

In some cases of family foundations that were not endowed, there was no formal process or review board and the individual family members involved with their own funds made their own decisions, sometimes with the support of staff.

## WHAT IS THE CONTRACTUAL PROCESS FOR GRANTEES?

Most of the foundations advised their grantees immediately, either by phone or sms. This was followed by a letter of understanding or a formal grant contract. A letter outlining the amount and reporting requirements was the most used form of

contract, but some had detailed contracts where grantees had to provide a start date and specific elements such as activities, indicators, outcomes and budgets.

It was noted that funding universities could occasionally be complicated as university legal departments sometimes contested elements in the contracts, particularly relating to overhead.

Generally the grant letters or contracts were done in consultation with the grantee and a staff member such as a portfolio manager. Payments were dependent on certain details being agreed.

One foundation had different processes for different size grants as follows:

- Grant letter for small grants
- Shorter versions of their grant agreements for grants under R200 000.
- Detailed grant agreements for funding over R200 000.

Contracts were generally emailed to grantees and then needed to be printed and signed. Generally the post was no longer used.

Other details occasionally required were proof of authority to sign a contract and proof of banking details.

One particular foundation had no formal contract regarding the specific work or project, but asked for quarterly or six-monthly reports. If they were funding a salary, they wanted a report from the salaried person signed by the CEO before the next tranche was paid.

## **WHAT ARE THE REPORTING REQUIREMENTS?**

All the foundations required some form of reporting and this varied from formal logic frameworks to simple financial and narrative reporting, including submission of organisational annual reports and financial statements.

The majority sought six-monthly reports and often the next tranche was not paid until the report had been submitted. Most foundations sought brief reports, but to the point, and others had formal reporting templates.



Key issues that donors preferred to see in the reports included:

- Impact
- Challenges
- What they have learned
- How the knowledge is shared
- Information on transformation and equity
- How objectives in the contract were met.

Some foundations preferred to focus on “people evidence” rather than written reports and therefore site visits played a significant role in monitoring of their grants. International foundations with offices in South Africa did not form part of this survey, but it is clear from the researcher’s engagement with these foundations that international foundations employ sophisticated reporting mechanisms and tools. Whilst personal relationships with grantees are significant and important, these tools and mechanisms are a large component of reporting.

### **IS AN INDEPENDENT AUDIT REQUIRED AND WHO PAYS FOR IT?**

Only one foundation indicated that they had undertaken an independent audit and that they had paid for it. Others had a clause in their contracts that reserved the right to undertake such an audit, but had not actually done it. Of the four foundations that had considered this, all agreed that they would fund such an audit and make the findings of the audit available to the grantees.

### **DO GRANTEES HAVE TO BE REGISTERED WITH THE NPO DIRECTORATE?**

Registration with the South African Revenue Services as a Public Benefit Organisation (PBO) and therefore with tax exemption was a priority for all foundations, whilst registration as a non-profit organisation with the Non-Profit Organisations Directorate of the Department of Social Development was not necessarily a priority. Three foundations indicated that the latter was not necessary. The importance of an 18A tax exemption generally mainly applied to foundations that were not endowed, but where the donor provided annual support.

### **WHAT STEPS ARE TAKEN IF REPORTS ARE INCOMPLETE OR NOT RECEIVED?**

All foundations, other than one, were insistent on receiving reports on time. Action against a grantee was rarely taken immediately and most foundations indicated that they would follow up with a reminder, either in writing or telephonically. One foundation had a reminder system on its data base and it alerted the grantee the day after the report was late. However, if a report was not forthcoming further funding tranches were not paid and there was a clear correlation between reporting and the release of the next tranche of funding.

One foundation recognised that non-receipt of a report was a symptom of underlying organisational problems that needed to be dealt with and the foundation did intervene, sometimes through an intensive engagement. Another foundation indicated that it was rare not to receive a report, but the lack of report was a signal of success or failure.

Some foundations indicated that they had stopped supporting organisations because of non-compliance and one foundation director revealed that in seven years, this had occurred four times. One foundation had a conflict resolution process, but had never resorted to using it.

### **HAS THE FOUNDATION INSTITUTED LEGAL ACTION IN THE EVENT OF NON-COMPLIANCE/MALADMINISTRATION?**

None of the foundations had ever instituted legal action in the event of non-compliance or maladministration, but one had such a clause in its contracts with grantees. One foundation had provided seed funding for a specific project which never came to fruition and therefore asked for the funds to be returned.

### **DOES THE FOUNDATION UNDERTAKE MONITORING AND EVALUATION OR EXPECT IT FROM ITS BENEFICIARIES?**

Twelve of the twenty-one foundations expected some form of monitoring and evaluation from their beneficiaries, whilst two were exploring how to implement this. For those who were actively promoting monitoring and evaluation, the following comments were made:

- We have two levels of monitoring – firstly internally done as part of the grant agreement and then externally by an independent assessor paid for by the foundation.

- We have piloted an impact assessment pro-forma and will be doing this on an annual basis.
- We do internal programmatic M&E and the basis is a theory of change. Indicators of the outcomes are tracked and we sometimes use external people to give input on M&E processes, but they do not carry it out.
- We are looking at some methods, particularly in Early Childhood Development and schooling work, but it is not formally implemented.
- Our M&E framework includes our programme managers doing monitoring off a set of tools. We have an external evaluation team paid for by the foundation. We have expectations that grantees should be monitoring what we fund and all should be aligned. We cost the monitoring data that we need. The aim of this intensive M&E is for learning, but we have the sense that grantees view this more as compliance rather than a tool. We keep the information and do not share it with other donors as we believe it can compromise organisations doing good work.
- The programme director has the main responsibility for M&E which we use mainly for learning. Our area of focus, social justice, has long term impact which is not easily measured. Grantees take time to reflect on what they are doing and learning and use information for strategy improvement. We have a section in our report about annual reflection meetings. The programme director also sets up evaluation groups to teach grantees how to evaluate themselves. If we insist on an external evaluation of a grantee organisation, we will pay for it.
- The monitoring aspect is covered by my site visits and I speak to our grantees regularly. When it comes to overall evaluation, we have a discussion on what has been achieved. We ask them for their assessment of the lessons learned, if they haven't done what was expected and what new opportunities have presented themselves. We prefer a light touch. If we have to take a lot of trouble, then we haven't selected our grantees properly. We also ask grantees to speak to trustees at board meetings from time to time.
- We have different streams of M&E:
  - Where we have partnerships with other significant donors such as the National Department of Health, which would have specific requirements, 5-10% of the budget would be earmarked for M&E. This would be their choice.
  - We undertake random trials and most of M&E is based on the baseline, such as large school trials. These are expensive.
  - We undertake M&E with specific Key Performance Indicators in our own organisation so that we have a view of our impact. We ask ourselves, for every dollar invested, what is the impact? Can we reduce costs? Can we reach more people with more money?

- We also build transparency tools. We have, for example, a data base of the worst clinics in South Africa and think this should be publicly available.
- We expect M&E from our beneficiaries and we check the tools that they have before we make the grant. If we want to assist, that will be included in the grant.
- Anything we fund must have a monitoring and evaluation framework and they must report to us at every board meeting. When we develop the programme, they develop the M&E framework and are expected to report back on this.
- We, as the donor, like to serve on the boards of our grantees so that we can monitor what is happening. We don't have formal M&E requirements.

Again, the monitoring and evaluation requirements of the participants were not as complex or onerous as those implemented by international counterparts.

It was clear the monitoring and evaluation benefitted both the grantmakers and the grantees and primarily the aim was to ascertain impact [both short and long term] and to learn from their experiences and practice.

## **POLICY IN TERMS OF RISK-TAKING AND ETHICS**

Only five foundations had formal policies relating to risk-taking and ethics. However, there were indications that during the review process of grantmaking that issues around risk were discussed and considered. For some, risk taking was in their strategic documents and they were willing to fund innovation or “something on the edge”. Another foundation indicated that their grantees (fellows) were encouraged to take risk.

## **RISK**

Foundations were asked a number of questions relating to risk and the responses were as follows:

- 75% funded start up organisations.
- 80% funded new ideas or innovation
- 30% funded litigation
- 50% funded advocacy programmes or unpopular causes
- 90% were prepared to create leverage to attract other funding.

#### Comments included:

- We have not funded litigation before, but it is not consciously off the agenda.
- We try to fund new ideas, but rarely get these proposals.
- This is individual money so we can be quite risky. Risk would be losing the money and political risk.
- We like risk linked to innovation and some form of sustainability.
- We have found matched funding to be a successful tactic. We like leverage – the leverage reduces the risk for the other partners, especially in high tech. It opens the door for more conservative donors.
- Whilst the objects of the trust are to channel funds to PBOs, we also have a secondary object to support a start-up to grow into a PBO.
- Does it fund start-up organisations?
  - Yes 14
  - No 4
- Does it fund new ideas/innovation?
  - Yes 15
  - No 2
- Does it fund litigation?
  - Yes 6
  - No 11
- Does it fund advocacy programmes or unpopular causes?
  - Yes 7
  - No 9
- Is the foundation prepared to create leverage to attract other funding?
  - Yes 15
  - No 1

#### WHAT IS THE FOUNDATION'S APPROACH TO PARTNERSHIP FUNDING?

19 of the interviewed foundations were positive about partnership funding and collaboration. However, there was recognition that the establishment of partnerships was not always an easy process and not necessarily successful. They were careful to explain that if an organisation had a number of donors, that was not a partnership and nor was one donor leveraging off another. Partnerships were deliberate attempts to work together for a common goal and where donors co-created programmes which were a recipe for sustainable and effective partnerships.

#### Other comments included:

- You optimise impact if you work with someone else.
- We have done this a few times and it is useful to have two sets of eyes and we

can talk to the partner and get their views. However, we don't want to be forced to do something because the partner does it.

- We like this if it has a meaningful outcome. We look at return on investment and deliverables/outcomes, not the money.

### **DOES THE FOUNDATION EMPLOY EXIT STRATEGIES? IF SO, WHAT ARE THESE?**

Generally foundations had no real exit strategies other than a warning that the funding would come to an end at a specific date. Occasionally this was negotiated up front in their contracts. None of the foundations had considered providing their grantees capacity building for fundraising, making a legacy grant in the form of an endowment or introducing them to other donors. Only one indicated that they helped them leverage other funds and one paid for a consultant to assist.

Comments included the following:

- Projects have a start and an end.
- We do this in a decent way and give early warnings to organisations.
- We have never exited an organisation that was successful.
- We fund projects, not organisations, so they have finite lifecycles, but we do bolster the organisation to make it stronger.
- We provide clarity that we aren't long term funders – as the grant progresses we will let them know that this is an exit grant.
- We see ourselves as catalytic so we have an exit strategy. Part of our role is to work on a sustainability strategy including paying for an organisational consultant, for example.

No matter the type of foundation or grantmaker, exits are inevitable and, whether or not the donor is the sole source of the organisation's funding, exit can be disruptive, cause panic and invoke a sense of insecurity. Clearly defined exit strategies contribute to ensuring effective planning and clear expectations. A properly negotiated exit can in fact boost organisational capacity, boost organisational resources and provide an opportunity to maximise the effect of the grant and thereby the impact.

### **ARE GRANTEES EXPECTED TO KEEP THE FOUNDATION'S FUNDING IN A SEPARATE RING-FENCED BANK ACCOUNT?**

Only one foundation indicated that its funding should be maintained in a separate bank account, whilst three stated that they had asked for this on occasion. One preferred this, but it was not a non-negotiable. The vast majority of foundations were content that the funds should be held in the grantee's general operating account.

## **DOES THE FOUNDATION FUND OPERATIONAL COSTS, SALARIES AND UNDESIGNATED/GENERAL PURPOSE FUNDS?**

100% of foundations funded salaries and 95% funded operational costs. 60% provided for undesignated or general purpose funding.

The following comments applied:

- We tend to go for programmatic funding, but are generous with overheads. They have to be wrapped around the programme.
- We fund 100% of billings, but are now at breaking point.

## **WHAT WILL THE FOUNDATION FUND OR NOT FUND?**

The key areas that foundations would not fund focussed mainly on religious institutions, political parties and for-profit entities. Others included individuals, infrastructure or capital projects (including vehicles or buildings), conferences, endowments, the performing arts and professional degrees such as MBAs, extremist organisations, research, criminal entities. When it came to endowment one foundation asked whether organisations felt they could invest these funds better than the foundation itself.

## **WHAT DISCRETION HAS THE FOUNDATION TO DRIFT FROM THESE POLICIES?**

Most foundations were tightly bound to strategy and did not drift from these policies. However, in some cases there was discretion.

## **DOES THE FOUNDATION REQUIRE DONOR RECOGNITION AND IN WHAT FORM?**

Half the foundations required some form of donor recognition, but they were not prescriptive about it. They were not necessarily looking for plaques and “fanfare” but they expected the grant to be acknowledged in annual financial statements, annual reports or on grantee websites or blogs. The issue of having role models was raised as a way of encouraging other giving as well as attracting and leveraging partnerships. They wanted to network and be recognised as effective donors, but this was not branding for its own sake.

One foundation was involved in the production of open source software and it required that their copyright notice be perpetuated.

## DOES DONOR PRACTICE DIFFER FROM THE PREVIOUS GENERATION?

Grantmaking practice had changed over the years and foundations indicated that it tended to be more structured and regulated than before with improved planning and intent. Comments included:

- The mission statement for generation two is more diverse than for generation one.
- The funding has shifted from project focussed to education only in South Africa. The foundation now also funds internationally.
- More formalisation of systems and processes.
- More specific.
- Shift in the last five years where practice has changed. It is more strategic and focussed and we do more proactive work, whilst we used to wait for proposals.
- We take more risk, are more innovative, happy to fail and learn. We give away more money and we are more aware of partnerships, leverage and learning from others.

What was clear amongst participants was that while practice may have shifted and moved with the changes in context and the development of new tools, the intention had remained unchanged.



## // OPERATIONAL MANAGEMENT

### **WHAT AMOUNT OF ANNUAL BUDGET IS APPLIED TO GRANTMAKING AND WHAT AMOUNT IS APPLIED TO INTERNAL FOUNDATION OPERATIONS?**

Most of the foundations interviewed had a modest infrastructure and the annual spend or endowment capital did not necessarily correlate with the size of the operational budget.

Five of the foundations had minimal operational expenses as the family was personally involved and in one case the trustees and management undertook their work voluntarily.

Five foundations spent 10% of the annual expenditure on operations, six spent 20% and four in the region of 13%-17%.

It was pointed out that a significant amount of funding also went to pay portfolio or endowment managers and this was not always counted into the operational costs. Those that indicated a 20% expenditure included this figure or had significant operational involvement with their programmes.

### **WHAT ARE YOUR CURRENT RESOURCE REQUIREMENTS?**

The research explored the physical and human resource infrastructure of the interviewed foundations and the following results emerged:

- Fourteen foundations had independent premises, whilst seven operated from founders' or trustees' homes or businesses.
- The size of the staff complement of those that had staff and were not run by a family member or volunteer varied substantially. The foundations with the most staff were substantially involved in the programmes they funded and in those cases staff ranged from 60 (highest) to 35. The average staff complement for the balance of the foundations was 5.5.
- Eleven of the twenty-one foundations interviewed used independent expertise or consultants.
- Four foundations were run by family members and the remaining seventeen had people not associated with the family. In that case, two of the foundations were run by someone with expertise such as a lawyer, accountant or banking service.

## **DOES THE FOUNDATION MARKET ITS WORK OR NOT?**

60% of the foundations marketed their work, mainly through websites and social media. Comments included:

- We create awareness of our programmes and opportunities through schools, universities and community newspapers. We have a public relations company on retainer that sources opportunities to expose scholarship and fellowship opportunities.
- We mainly communicate through traditional platforms, website and social media. We have events to disseminate and put out publications. We make few media releases.
- We speak at events and plan to put up a website.
- We will soon launch a website and occasionally release a press statement.
- We have the website for information sharing – we hope to put people off from writing to us.
- We have a website but it needs to be updated.
- Speaking at conferences in the technical space, health, NGOs and through social media.
- We share the work we do and share learnings. We don't market the foundation, but do market the projects.
- It is important to have a public profile because we might attract partnerships.
- We have no website and are as anonymous as possible.

## **FORMAL HUMAN RESOURCE SKILLS WITHIN THE FOUNDATION**

The research questioned whether foundation personnel had any specific grant-making or other training. Administrative staff generally had a matriculation qualification and some grantmaking staff had postgraduate qualifications. There were a few cases of grantmaking training (Stellenbosch University had held a course on grantmaking) and one had attended Inyathelo training.

## **HAS OPERATIONAL MANAGEMENT CHANGED FROM THE PREVIOUS GENERATION OR THE FOUNDER?**

Operational management had changed over time and comments included:

- Improved systems and processes. In the first generation the funders ran it themselves and had an administrator. The founding board was very hands-on and governance and operations were not particularly separate. There was no formalised operational office. Subsequently a CEO was appointed and governance and operations were split.

- We had a number of personnel but these have been retrenched and we are back to the family running the foundation.
- Up to 2000, the trust was run as an occasional activity by an individual. It was then managed by a non-profit consulting company specialising in corporate social investment. Eventually the existing CEO joined the trust by arrangement with the family and it is now significantly different, functioning as an independent trust.
- We have grown in experience.
- We are more proactive. The organisation has increased in size and has more formal structures and processes than a smaller team.
- We are more formalised.
- The organisation has changed from the founder and his mother making decisions to an international board including the founder, his father and others who understand education. In South Africa a bank carries out instructions. In recent times this has shifted again to the board making financial decisions and oversight with the founder making decisions twice a year.
- Operations are changing slowly, year by year.

It was noted that the level of bureaucracy amongst the foundations differed significantly. Foundations run more informally by the founder, family members or friends were less concerned about reporting, monitoring and evaluation, and relied more on the importance of personal relationships, site visits and intuition.

## OTHER ISSUES RAISED IN THE RESEARCH

Various other issues emerged during the course of the interviews. These included:

- When do we take on more staff?
- What happens when your strategy fails?
- What is the role of private foundations in transformation in South Africa? Should there be a role? How can you contribute to transformation?

## // CONCLUSION

This research has provided, for the first time, a glimpse and snapshot into the world of institutionalised philanthropy in South Africa.

We believe that this research adds to the body of knowledge about philanthropy in South Africa and hope that it assists in offering information to others who wish to become involved, as well as providing some kind of benchmarks for existing foundations in their own governance and grantmaking practice.

We would like to thank those foundations and their staff who agreed to be interviewed for this research, and especially for the level of transparency and willingness to share detailed information on their governance, operations, financial management, grantmaking and historical background. We did not take this privilege lightly and respect the confidence and trust that they showed in us.

## // PARTICIPATING FOUNDATIONS

1. The Rolf-Stephan Nussbaum Foundation
2. The Carl and Emily Fuchs Foundation
3. The Alan Gray Orbis Foundation
4. The Grindrod Family Centenary Trust
5. The Zenex Foundation
6. The Mauberger Foundation Fund
7. The Oppenheimer Memorial Trust
8. The Raith Foundation
9. The Lubner Foundation
10. The Millennium Trust
11. The Saville Foundation
12. The CS Menell Charitable Trust
13. The Praekelt Foundation
14. The DG Murray Trust
15. The Lewis Foundation
16. The Amicus Trust
17. The Doris Crossley Foundation
18. The Harry Crossley Foundation
19. The Ackerman Family Foundation
20. The Shuttleworth Foundation
21. The Andreas and Susan Struengmann Foundation

## // FOOTNOTES

- <sup>i</sup> *Major Donor Giving Research Report: A synthesis of the current research into major donors and philanthropic giving*, July 2012, Sarah Lincoln, Joe Saxton nfpSynergy Commissioned by the Institute of Fundraising
- <sup>ii</sup> *Conflicts of interest: A guide for charity trustees*, published by The Charity Commission 2014
- <sup>iii</sup> *Conflicts of interest at foundations: Avoiding the bad and managing the good* © BoardSource 2005
- <sup>iv</sup> *Conflicts of interest at foundations: Avoiding the bad and managing the good* © BoardSource 2005
- <sup>v</sup> *Diversity in philanthropy: A comprehensive bibliography of resources related to diversity within the philanthropic and non-profit sectors*, Copyright © 2008 by the Foundation Centre.
- <sup>vi</sup> *The five attributes of enduring family businesses : The keys to long-term success are professional management and keeping the family committed to and capable of carrying on as the owner*, January 2010, by Christian Caspar, Ana Karina Dias, and Heinz-Peter Elstrodt : McKinsey & Company
- <sup>vii</sup> <http://www.taxcom.org.za/aboutus.html>
- <sup>viii</sup> [http://ssir.org/articles/entry/mission\\_aligned\\_investing\\_more\\_complex\\_than\\_it\\_seems#sthash.L6xnw4YD.dpuf](http://ssir.org/articles/entry/mission_aligned_investing_more_complex_than_it_seems#sthash.L6xnw4YD.dpuf)
- <sup>ix</sup> <http://www.gsb.uct.ac.za/s.asp?p=491>

This report reflects the research undertaken into the governance, financial management and grantmaking practice of twenty one South African philanthropic foundations during the course of 2015. This report was to assist existing foundations as well as emerging entities to benchmark their practice.

Based on an extensive questionnaire, interviews were done with 21 foundations through their representatives including foundation staff as well as the founders where appropriate.



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